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C O N F I D E N T I A L LILONGWE 000077

SENSITIVE

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LONDON FOR AF WATCHER PETER LORD

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TAGS: [EAID](#) [PREL](#) [MI](#)

SUBJECT: CHINESE AID TO MALAWI: BIG BARK, SMALL BITE

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[¶](#)1. (C) Summary. Since December 2007, when Malawi established diplomatic ties with the People's Republic of China, there has been a lot of rumor and speculation about the amount of aid China would provide to Malawi. The GOM has fostered the impression that China represents a new, virtually limitless source of development grants and a similarly unlimited market capable of absorbing all of Malawi's output. In fact, China has committed to fund only two projects -- a road and the new Parliament building -- and will offer concessionary loans to finance a few other projects. By contrast, annual USG assistance to Malawi now stands at over \$100 million, and already far exceeds China's projected aid totals over the next three years, even before our expected MCC compact with Malawi. End summary.

[¶](#)2. (C) In a recent meeting, the Chinese Ambassador discussed his country's aid levels to Malawi with Ambassador Bodde. He acknowledged that China has committed to only two projects that will be funded as grants. One is the completion of the Karonga - Chitipa road in rural northern Malawi (USD 70 million), and the other is the completion of the new National Assembly building in Lilongwe (USD 41 million). Both projects had been previously funded by Taiwan. According to Ambassador Lin Songtian, the USD 110 million in total funding for these projects represents an unusually large amount of assistance for China to provide to an African country. He noted that it was only because the PRC had for some time set aside money in anticipation of opening relations with Malawi that so much is available. Lin indicated that no additional large grant-funded projects would be forthcoming in the foreseeable future.

[¶](#)3. (C) In addition to these two large projects, Lin said the Chinese will be building two primary schools and have offered to supply malaria drugs. They are also in the process of supplying Malawi's MFA with furniture and vehicles worth roughly USD 300,000. Two MFA officials were provided training last year, and four to six more will be provided language training in China this year. The PRC has also committed to providing a concessionary loan to build a stadium and a five-star hotel in Lilongwe. These projects would be built by Chinese firms but ultimately paid for by the people of Malawi. Lin said that any potential future development projects would be financed in this way as well.

[¶](#)4. (C) Media reports have also played up increasing bilateral trade between China and Malawi, but here too the reality is less than the hype. Lin noted that although there are 350 million smokers in China, the Chinese prefer flue-cured tobacco in their cigarettes, not the burley type that represents the vast majority of Malawi's production. Anyone expecting that Chinese demand for Malawian tobacco will absorb larger production at higher prices is bound to be

disappointed.

¶6. (C) Comment: The GOM created overly optimistic expectations when it unveiled its strategic switch from Taiwan to China in December 2007. The reality is that the Chinese have only agreed to complete two projects that the Taiwanese government had started. Nonetheless, both the GOM and the media continue to play up the significance of this new relationship, perpetuating the exaggerated expectations. At a state dinner in honor of the visiting Chinese Foreign Minister in January, Foreign Minister Joyce Banda gushed over China's aid to Malawi in general, but especially about the \$300,000 to the Foreign Ministry. Likewise, in a conversation with the Ambassador (ref B), Peter Mutharika, the President's brother, initially commended the speed and magnitude of Chinese foreign assistance to Malawi, but upon further discussion admitted that most of the assistance was in the form of concessionary loans and couldn't be compared to U.S. grants. Annual USG assistance to Malawi stands at over \$100 million, and already far exceeds China's projected aid totals over the next three years, even before our expected MCC compact with Malawi. We don't build stadiums -- we help save thousands of lives through our health programs and improve education for Malawi's next generation.

BODDE